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Washington, D.C. 20548



157885

Accounting and Information
Management Division

B-272969

December 13, 1996

Ms. Bonnie R. Cohen
Assistant Secretary
Policy, Management and Budget
Department of the Interior

Dear Ms. Cohen:

This letter responds to your request for an interpretation of the requirements in Title 7, "Fiscal Procedures," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. Specifically, you asked whether it is permissible to verify the validity of travel claims for temporary duty (TDY) travel vouchers not exceeding \$2,500 after, rather than prior to, payment certification. Also, you asked if it is permissible to perform such post-payment validation procedures on a statistical sampling basis.

According to your letter, the Department of the Interior (DOI) evaluated its travel voucher processing system with the intent of streamlining operations and reducing cost.¹ We support initiatives to make government work better and cost less, while also protecting the government's interest.

To supplement the information in your letter, we contacted your staff to discuss your questions in more detail. Your staff advised us that travel vouchers are processed in either an automated or manual environment. Because controls are different under each environment, we assessed your proposed modifications separately for automated and manual operations. However, we did not evaluate or test your current system to assess whether an adequate internal control structure has been implemented and is operating effectively. Consequently, our response only addresses your questions conceptually.

¹The Joint Financial Management Improvement Program (JFMIP) established an interagency team in 1994 to address travel reengineering. The obstacles, suggested improvements, and specific recommendations for TDY and relocation travel are documented in JFMIP's Improving Travel Management in Government, December 1995.

GAO/AIMD-97-25R Employee Travel Claims (DOI)

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Normally, validation procedures are required to be performed prior to payment authorization. For travel vouchers processed under the automated portion of your system, our approval for postpayment validation procedures is not needed assuming that the electronic checks and edits your staff described exist and are operating as intended. They qualify as prepayment controls and would be sufficient to ensure validation. The statistical sampling you propose as a postpayment validation procedure would qualify as an acceptable procedure for verifying that the automated checks, edits, and other controls are working properly. As such, the sampling is permitted.

However, for travel vouchers processed under the manual portion of the system, the post-payment validation procedures you propose are acceptable only under certain circumstances, to be discussed in subsequent sections. We have several observations regarding your proposal and offer four steps or control procedures to address them. Based on our understanding of the proposal, we have no objection to its implementation provided the steps or control procedures we suggest are effectively implemented.

DOI'S CURRENT SYSTEM

Presently, DOI's travel voucher processing system for TDY travel is decentralized among its 11 bureaus. Your staff estimated that during 1995, about 48 percent (approximately 148,800) of the annual travel vouchers processed and approximately \$56 million of the total \$117 million certified for payment, were processed through an automated system. The remaining vouchers were processed manually. Your staff explained that DOI's long-term goal is to automate about 90 percent of its TDY travel vouchers by fiscal year 1999. Your staff said the remaining 10 percent of the travel vouchers processed manually would be for travelers at remote or small sites.

According to your staff, the following steps make up the current system. At the completion of a trip, the traveler prepares a voucher (1) electronically if the traveler's organization has access to the automated travel system or (2) manually if electronic access is not available. The actual expenses incurred for which a claim is being made are either (1) entered into the automated system or (2) listed on the manually prepared voucher by the traveler. In both cases, the expenses included are by category, such as lodging, auto rentals, subsistence, and other.

As designed, the automated portion of the system performs numerous checks and edits on the information entered. These checks and edits include, but are

not limited to, (1) verifying that the trip had been authorized,² (2) determining that the limitations set forth in regulations and the travel authorization have not been exceeded,³ and (3) verifying the accuracy of computations. If the edits and checks do not reveal inaccuracies or noncompliance, the system will generate a hard copy voucher based on the cost information entered in the system. But, if the checks and edits detect potential noncompliance, the system generates a hard copy voucher based on amounts within the established limits rather than amounts claimed. The travel voucher is then hand signed by the traveler and forwarded, along with all supporting documentation, to his or her supervisor for approval. When a traveler manually prepares a voucher, the hard copy voucher is signed and forwarded along with all required receipts and supporting documentation to the traveler's supervisor for administrative approval.

The supervisor's signature signifies his or her agreement that the (1) travel was necessary to achieve program objectives, (2) charges appear reasonable, and (3) travel actually took place. The approved voucher along with supporting receipts and documentation is then forwarded to the bureau's finance office.

The finance office selects a sample of all the vouchers submitted under both the automated and manual portions of the system for detailed review prior to certification for payment.⁴ The sample selected is generally based on obtaining a 90-percent (or higher) confidence level. The detailed review consists of determining the validity of the claim, including confirmation of several items, the most important being that (1) the travel voucher was approved, (2) the amounts claimed and travel locations are consistent with the trip authorization, (3) the claimed per diem and subsistence amounts do not exceed preestablished limits, (4) any rental claims are authorized and within limits, (5) all claims are properly listed on the voucher and those requiring receipts are adequately supported by attached documentation and the calculations are

²Authorization information (such as estimated amounts and location of travel) approved on a hard copy document by hand signature has previously been entered into the system.

³An example of an electronically conducted test would be to compare the lodging and subsistence claims submitted on the voucher against the limits set by regulation for the city traveled to determine if the amounts claimed exceed the limits.

⁴Your staff stated that the sampling methodology follows the requirements of Title 7 of GAO's Policy and Procedures Manual.

accurate, and (6) overall, the claims are in compliance with the General Services Administration's (GSA)⁵ regulations and DOI's policies.

If the vouchers are determined to be in compliance with regulations and DOI's policies, amounts claimed for each voucher are forwarded to the appropriate certifying officer for payment approval. The certifying officer hand signs to approve payment and forwards information related to the payee and amounts to the Department of the Treasury for payment.

PROPOSED SYSTEM MODIFICATIONS

Aside from the longer term goal of increased automation, DOI proposes to shift its determination of the validity of travel claims less than \$2,500 from the statistical sampling prepayment review to a postpayment statistical review. Your staff stated that this change would result in numerous benefits, including reducing the average travel voucher processing time by 7 to 10 days. Your staff estimated that the reduced cycle-time should result in about \$100,000⁶ in savings or cost avoidance and in better service to employees by reimbursing travel claims sooner. Your staff also expects that this change will more evenly distribute monthly workload at the finance office.

Your staff explained that under the proposed system modifications, the voucher containing the reviewing official's approval would be forwarded to the applicable finance office, be promptly scheduled for payment certification, approved by the appropriate certifying officer, and forwarded to Treasury for payment. Within a few days of payment certification, a statistical sample from the universe of all paid vouchers would be selected for review. The sample, following the requirements of Title 7, would be drawn to achieve the same confidence level presently used. The postpayment review of selected vouchers would include the same steps currently used by voucher examiners prior to payment certification.

Your staff stated their belief that the interest of the government would be protected because the additional risk of implementing postpayment detailed review of travel vouchers compared to prepayment review is minimal. This belief is based on the results of very low error rates found under the current

⁵GSA is responsible for issuing federal travel regulations, which are published in the Code of Federal Regulations, 41 C.F.R. 301-304.

⁶Your staff emphasized that this estimate is based on certain assumptions believed to be valid at the time it was compiled.

prepayment sampling process. They further explained that DOI would implement procedures for recovery of all overpayments and deficiencies. If overpayment occurred, DOI would immediately take the most expedient of the three following options to recover the funds: (1) obtain reimbursement from the traveler, (2) make deductions from other travel payments due the traveler, or (3) initiate action for payroll deductions from the traveler's salary.⁷ Your staff said that the agency's goal is to recover overpayments within 60 days of discovering the overpayment using one of these collection options.

GAO'S ASSESSMENT OF THE PROPOSED SYSTEM MODIFICATIONS

As Title 7 explains, an agency should obtain sufficient evidence to validate a travel claim prior to payment. The officer certifying travel vouchers for payment must ensure the (1) propriety of amounts claimed, (2) legality of disbursements, (3) correctness of the computations, and (4) accuracy of the facts stated on the voucher and supporting documents. Your request, which asks whether it is permissible to establish the validity of claims on a statistical sample basis after payment is made, needs to be separately considered in the context of the automated and manual segments of your present travel voucher processing system. Our response for the two operating modes follow.

Automated Portion

In the automated portion, you propose to rely on the automated edits and verifications on travel claims prior to voucher approval and scheduling for payment that already exist. Properly operating, these edits and verifications would establish adequate internal controls to ensure the validity of claims. As we have previously reported,⁸ statistical sampling procedures after payment, such as those you propose, verify the adequacy of the payment processing system; they do not validate claims. Therefore, in your automated environment, it is permissible under Title 7 to perform statistical sampling procedures drawn from the universe of paid vouchers to verify that the controls in the payment processing system are operating as intended.

⁷DOI staff informed us that they had received clearance from DOI's attorneys regarding authority to make payroll deductions from employees for overpayment of travel claims.

⁸See Employee Travel Claims (DOD) (GAO/AIMD-95-171R, June 26, 1995); Air Force Automated Travel System (GAO/AIMD-95-74R, February 14, 1995); and Employees' Travel Claims (GAO/AIMD-95-71R, February 6, 1995).

Manual Portion

Under the manual portion of the system, you propose to implement procedures which would establish the validity of the travel claims after payment is made as opposed to the present practice of validating claims prior to payment certification. By 1999, you believe that only about 10 percent of the DOI's employee travel claims would be processed in this manner, primarily because these travelers are in isolated locations and small offices.

The type of postpayment validation procedures that you propose to implement is analogous to a form of payment processing known as "fast pay," which is currently available for purchases of goods and services from commercial vendors. Fast pay is permitted where there is a continuing relationship with reliable vendors, a geographical separation exists between the payment authorization office and the point of receipt, and an advantage in taking prompt payment discounts exists. We note that two of the criteria for fast pay would be pertinent in the federal travel environment and exist under your proposal for manually prepared travel vouchers. First, there is a geographical separation between the traveler and the finance office authorizing payment. Second, a continuing relationship exists with the traveler, who is an employee of DOI. We believe postpayment validation processes like those used in fast pay could be applied for travel vouchers since these two circumstances exist under the proposal you have designed. However, we have two observations regarding the internal controls described in your proposal.

First, combining statistical sampling with fast pay-type procedures as you propose poses additional risks that errors occurring would go undetected prior to payment. Therefore, we believe that before DOI implements its new procedures for manually prepared travel vouchers, it should establish that the risks of errors and irregularities are within tolerable thresholds. These risks could be readily and cost effectively assessed based on the results of the prepayment validation samples now selected for review under the manual portion of DOI's travel processing system. It is our understanding that this information is already available and, therefore, could be used to assess the error experience. Before converting to a statistical sampling approach for postpayment validation, we also believe that (1) the employees who prepare the manual vouchers should be made fully aware of any changes in the current process undertaken to recover overpayments when they occur and (2) prepayment validation procedures should be done on all vouchers prepared by travelers who have made repeated errors in preparing prior travel vouchers until such time as the their errors are eliminated or reduced to an acceptable level.

Second, since the 1982 enactment of the Federal Managers' Financial Integrity Act (FMFIA), all agencies are required to review their systems of accounting and management controls and report material weaknesses found to the Congress and the President annually. We believe that during the initial period and first full year the system modifications are operational, DOI's FMFIA reviews should emphasize testing the modifications by determining whether the controls are effective and working as designed.

In summary, based on our understanding of your proposal, we have no objection to its implementation provided the following steps or control procedures are effectively implemented:

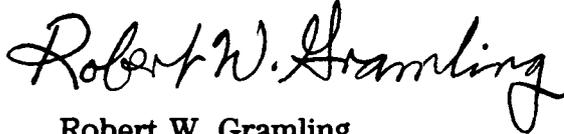
- for the manually prepared travel vouchers, first establish that the risks of errors and irregularities are within tolerable thresholds;
- formally communicate to employees who prepare vouchers of any changes to the existing recovery process for overpayments that will be implemented by DOI;
- establish a mechanism to identify those employees manually preparing vouchers who make repeated errors, so that their vouchers can receive prepayment validation until such time as the errors are eliminated or reduced to an acceptable level;
- during the initial period and/or the first full year the system is operational, and in subsequent years when deemed necessary, emphasize its review during the annual internal control reviews under FMFIA.

Finally, we believe the experience you gain implementing your proposal may have governmentwide applicability other agencies can benefit from. Therefore, we would appreciate being advised of the results of the implementation of your proposed changes periodically as you proceed. In addition, because GSA, the Department of the Treasury, and the Office of Management and Budget have responsibilities for issuing governmentwide travel regulations and payment policies, we also believe you should share the results of the implementation of your proposal with these central agencies.

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The contents of this letter were discussed with Schuyler Leshner, Ted Woronka, and others of your staff. We hope our comments are helpful as you implement system modifications best suited to your needs. If you have any questions or would like to discuss these matters further, please contact me at (202) 512-9406 or Bruce Michelson, Assistant Director, at (202) 512-9366.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert W. Gramling".

Robert W. Gramling
Director, Corporate Audit and Standards

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